

A Call for Fiscal Discipline

The Growing Danger of Debt:

Solutions to Protect Our Incomes



U.S. Rep. Mark Kirk
July 12, 2010

Special Thanks To:

Niall Ferguson

Henry Feinberg

House Budget Committee Minority Staff



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Global Divide

Cumulative change in jobs around the world since the recession began

THRIVING

Chile

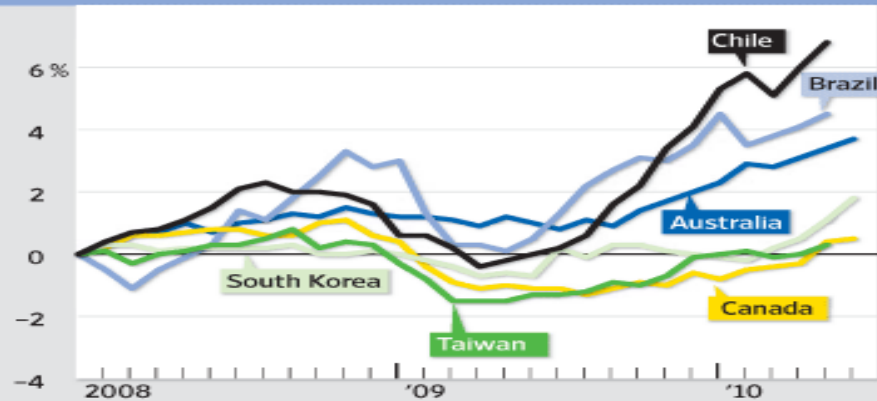
A major exporter of such commodities as copper, Chile shed jobs as global commodity prices slumped during the recession. But its relative financial health has helped it bounce back quickly.

Brazil

Employment took a hit when the global recession cut demand for exports such as regional jet planes, but has come back strongly, in large part because Brazil avoided the financial excesses of the boom years.

Australia

Strong trade ties with booming Asian economies and a relatively healthy banking system allowed Australia to get through the global recession largely unscathed.



South Korea, Taiwan

These two trade-dominated economies suffered a shock when global trade volumes plummeted in late 2008. But with much of Asia still going strong, they recovered quickly.

Canada

Banks weathered the crisis well, but the country's economy—and its workers—suffered due to proximity to the U.S.

STRUGGLING

Germany

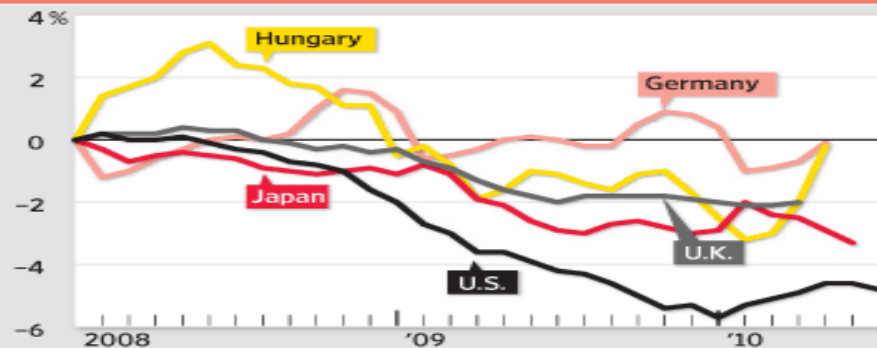
Companies avoided mass layoffs by sharply cutting the number of hours their employees worked. That has masked the damage the global recession did to Germany's export-driven economy.

Hungary

Heavily dependent on foreign investment, including loans denominated in euros, Hungary suffered when investors pulled out and its currency dropped sharply in late 2008.

U.K.

Employment keeps sliding in the U.K. as businesses and the government grapple with a consumer-debt hangover and a budget deficit even worse than those in the U.S.



Japan

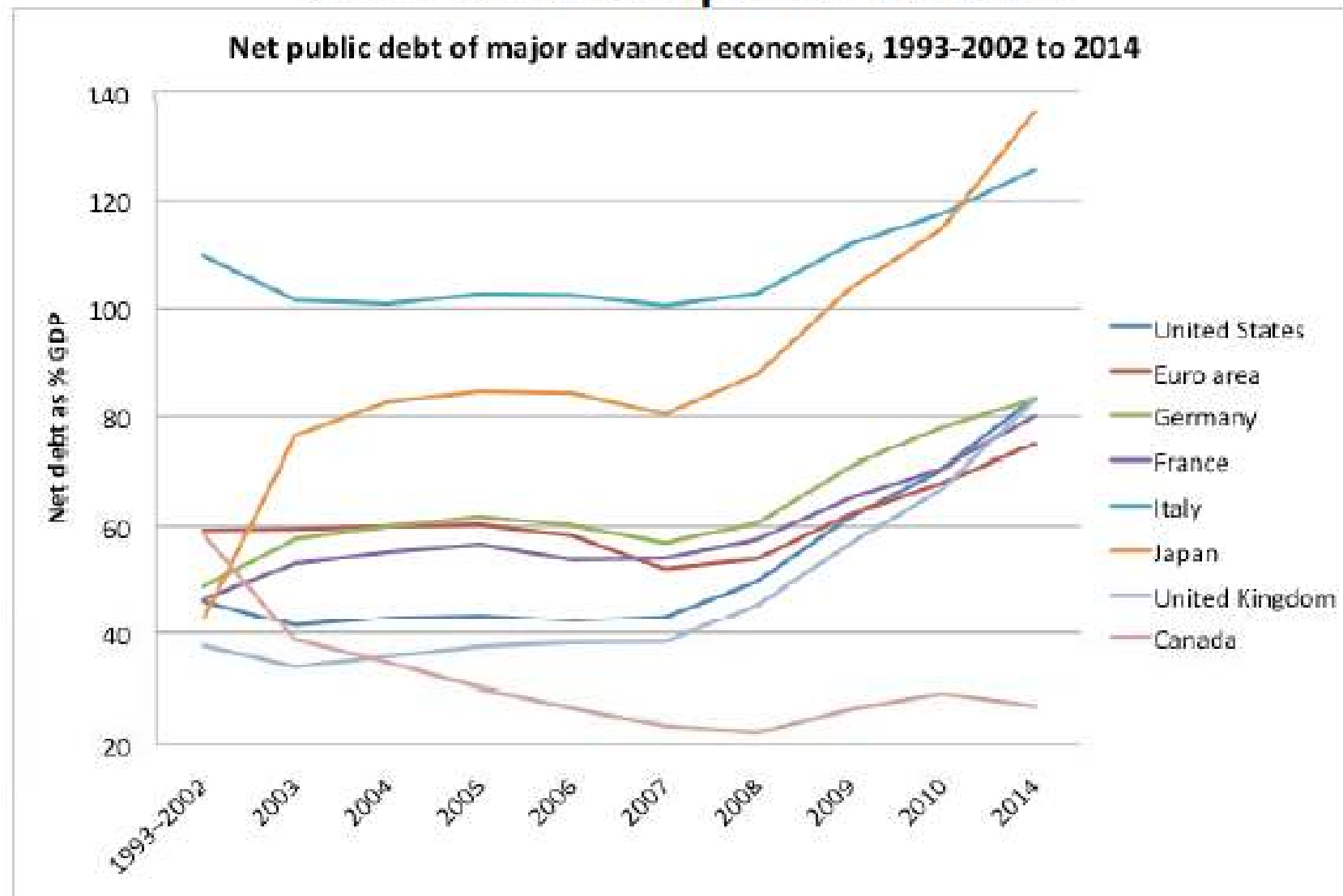
Deflation and massive government debt are weighing heavily on Japanese companies' confidence and hindering job creation.

U.S.

Heavy debts are making it difficult to restore jobs. With government and consumers facing a long road to financial health and banks still cutting back on lending, companies are reluctant to hire.

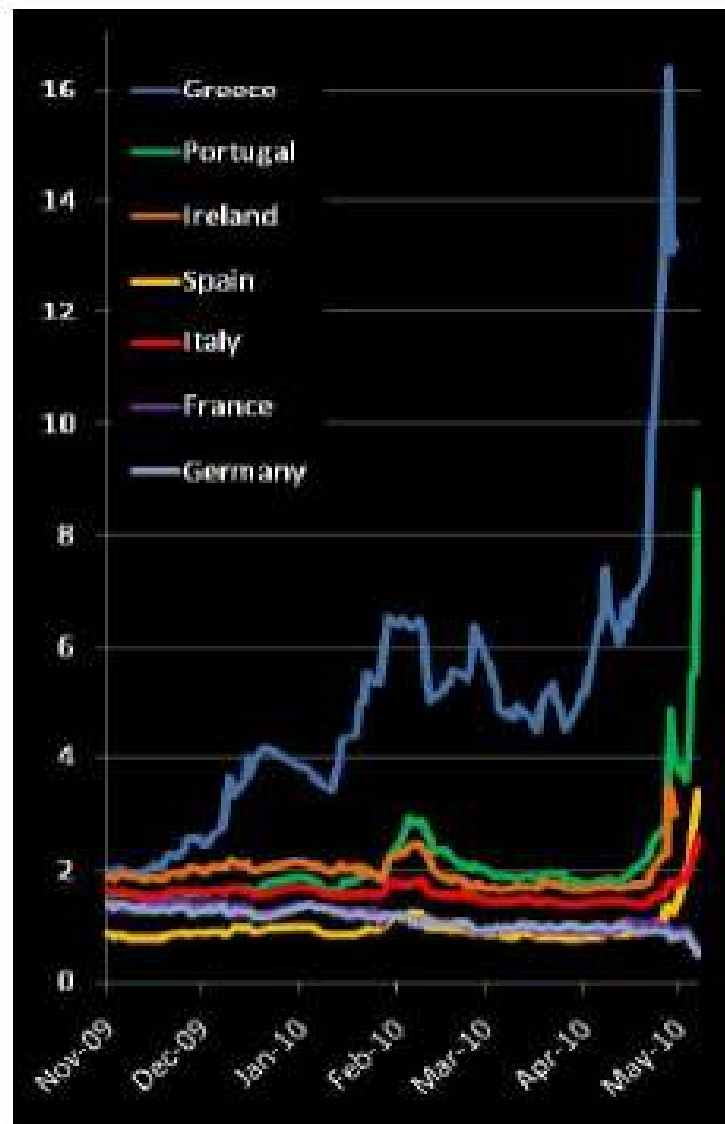
Source: Organization for Economic Cooperation and Development (Australia, Canada, Chile, Japan, South Korea, U.K., U.S.); International Labor Organization (all others)

We are witnessing a debt explosion in the developed world



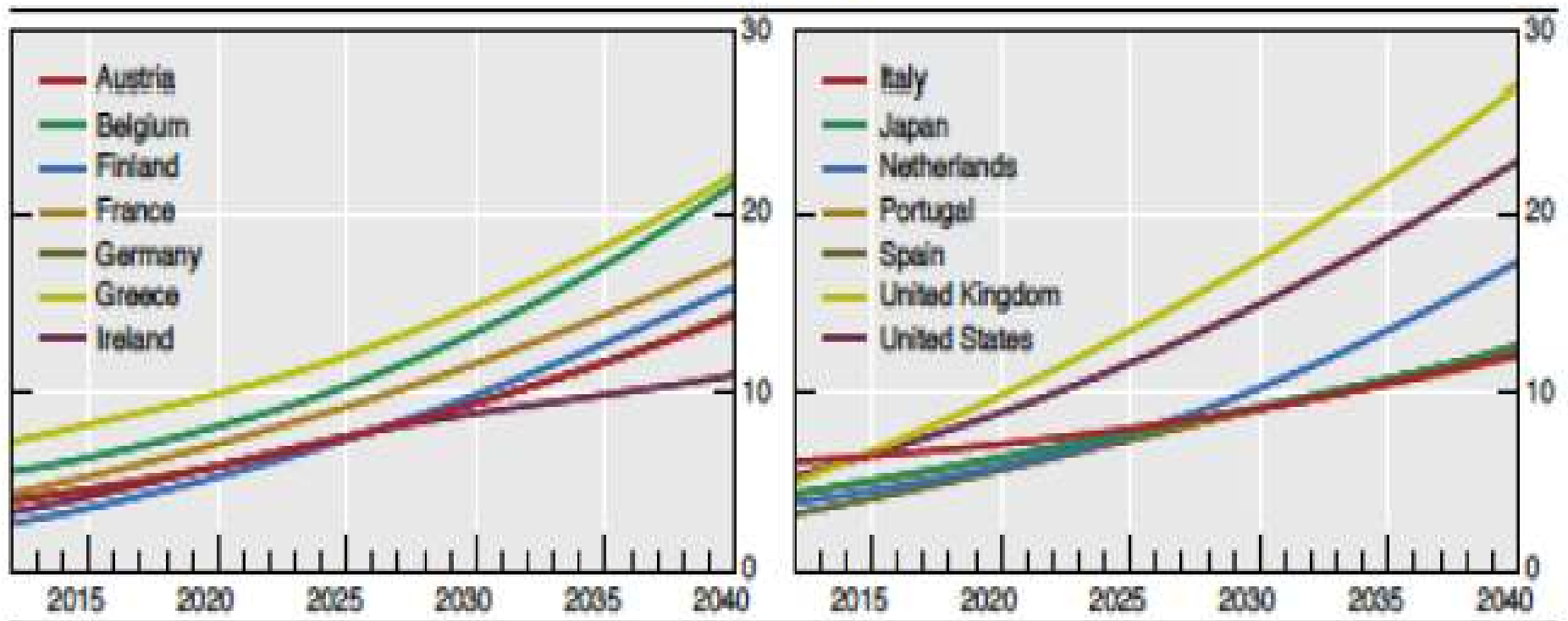
Source: IMF

With the power to scare governments
into emergency action



Projected interest payments as a fraction of GDP

In per cent



Sources: OECD; authors' projections.

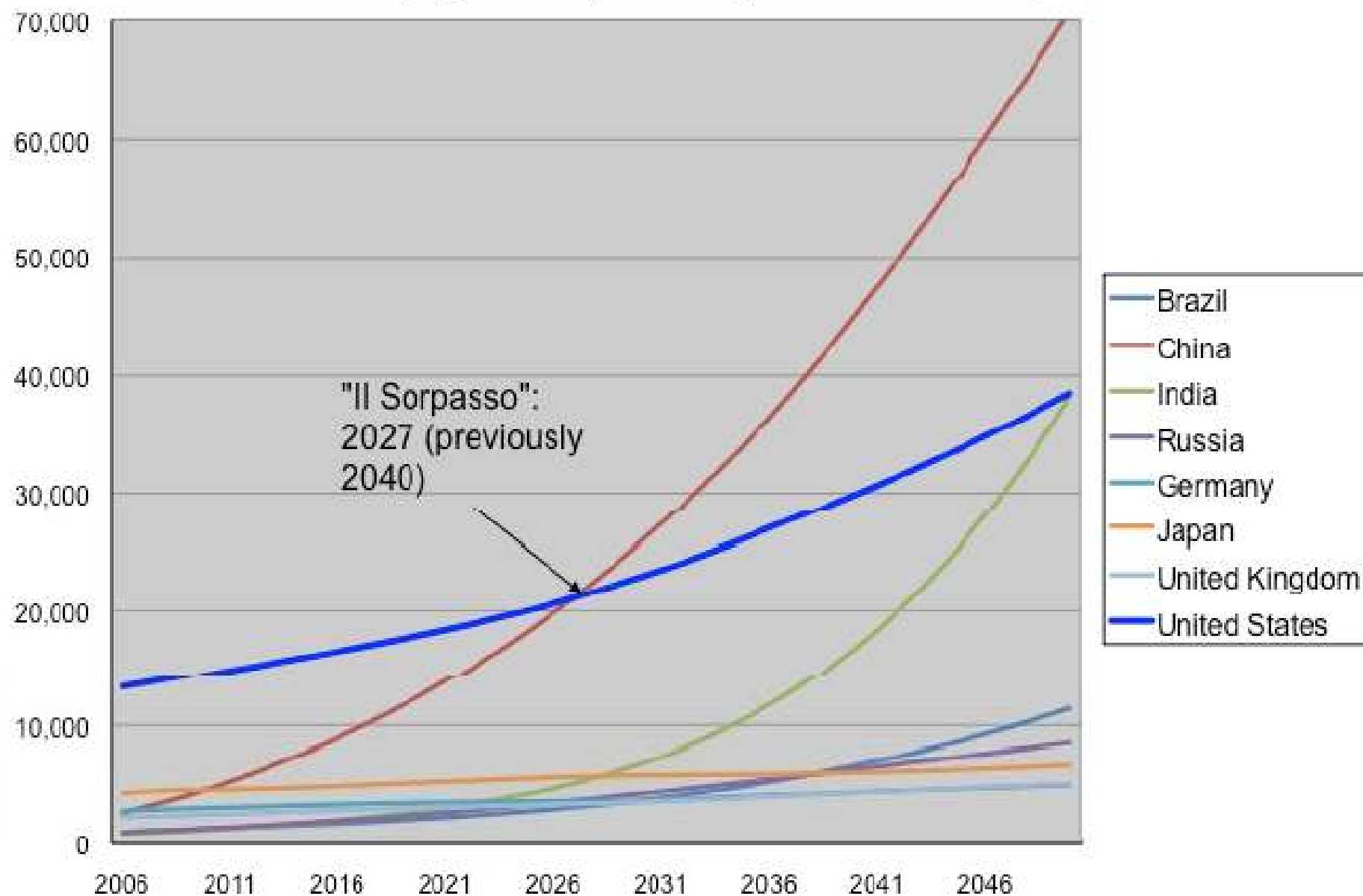
Memo: CBO extended baseline for total federal revenues in 2040: 22.3% of GDP

Source: BIS

	Real Growth	Spending as a Share of GDP		
	2001-2010	2001	2006	2010
U.S.	19.4	35	36	41.6
United Kingdom	15.6	39.9	44.1	52.5
France	13	51.6	52.7	55.9
Germany	6.7	47.5	45.3	47.9
Italy	2.4	48	48.7	51.6

Source: OECD

Goldman GDP projections (bn 2006 \$) BRICs v the "G4", 2006-2050



Source: Goldman Sachs

What are the implications?

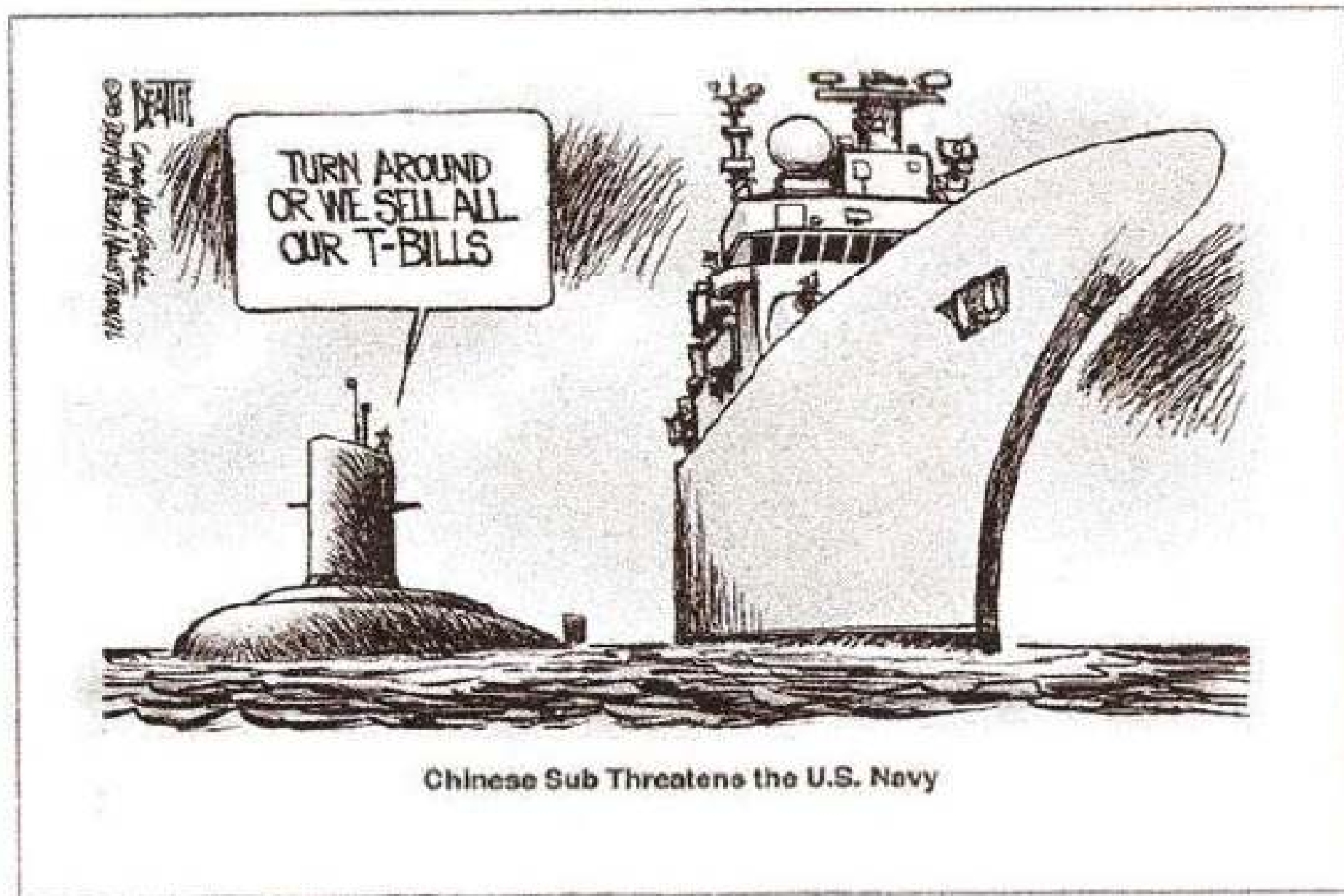
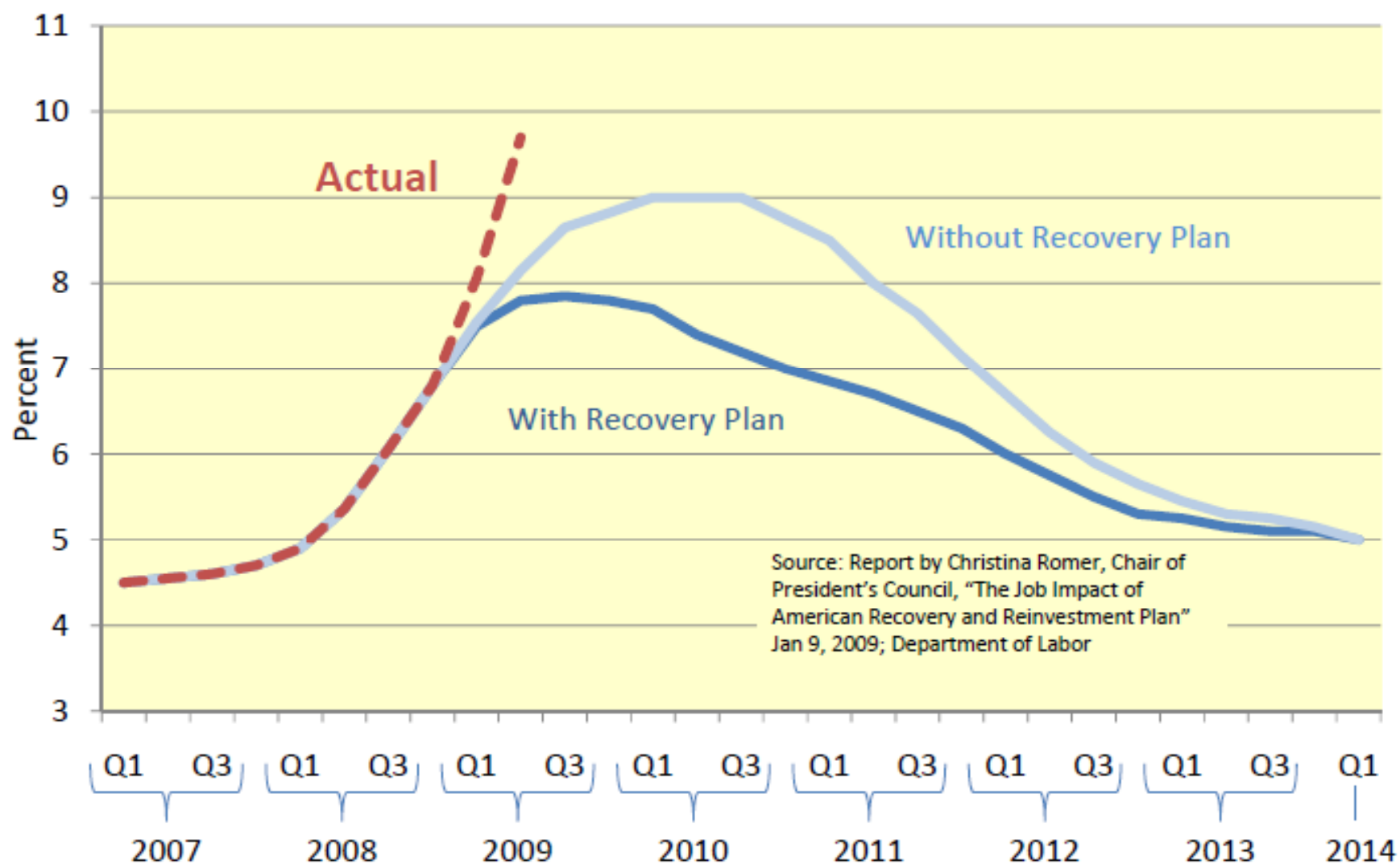


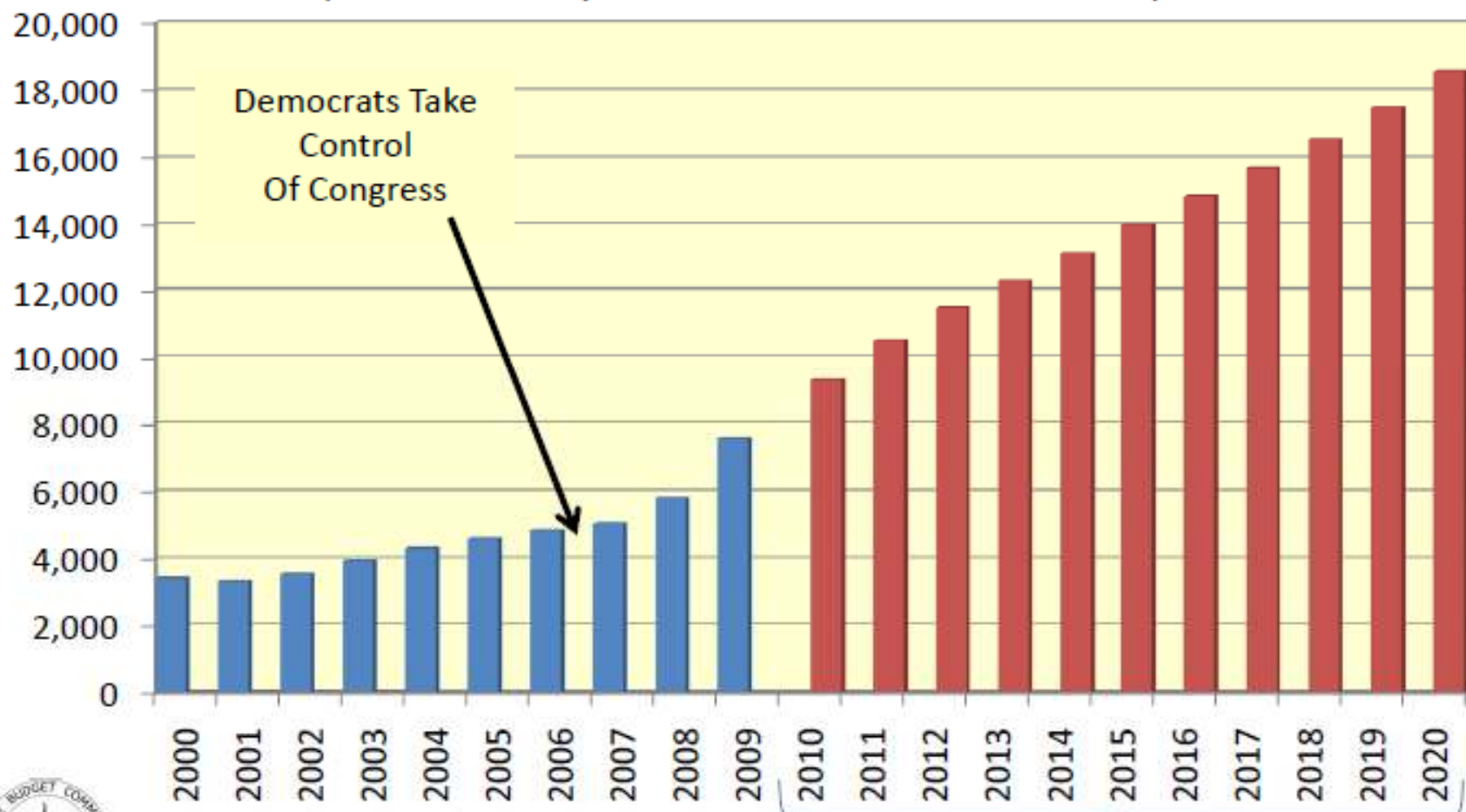
Figure 1

Unemployment Rate With and Without Recovery Plan



More than Doubles Debt

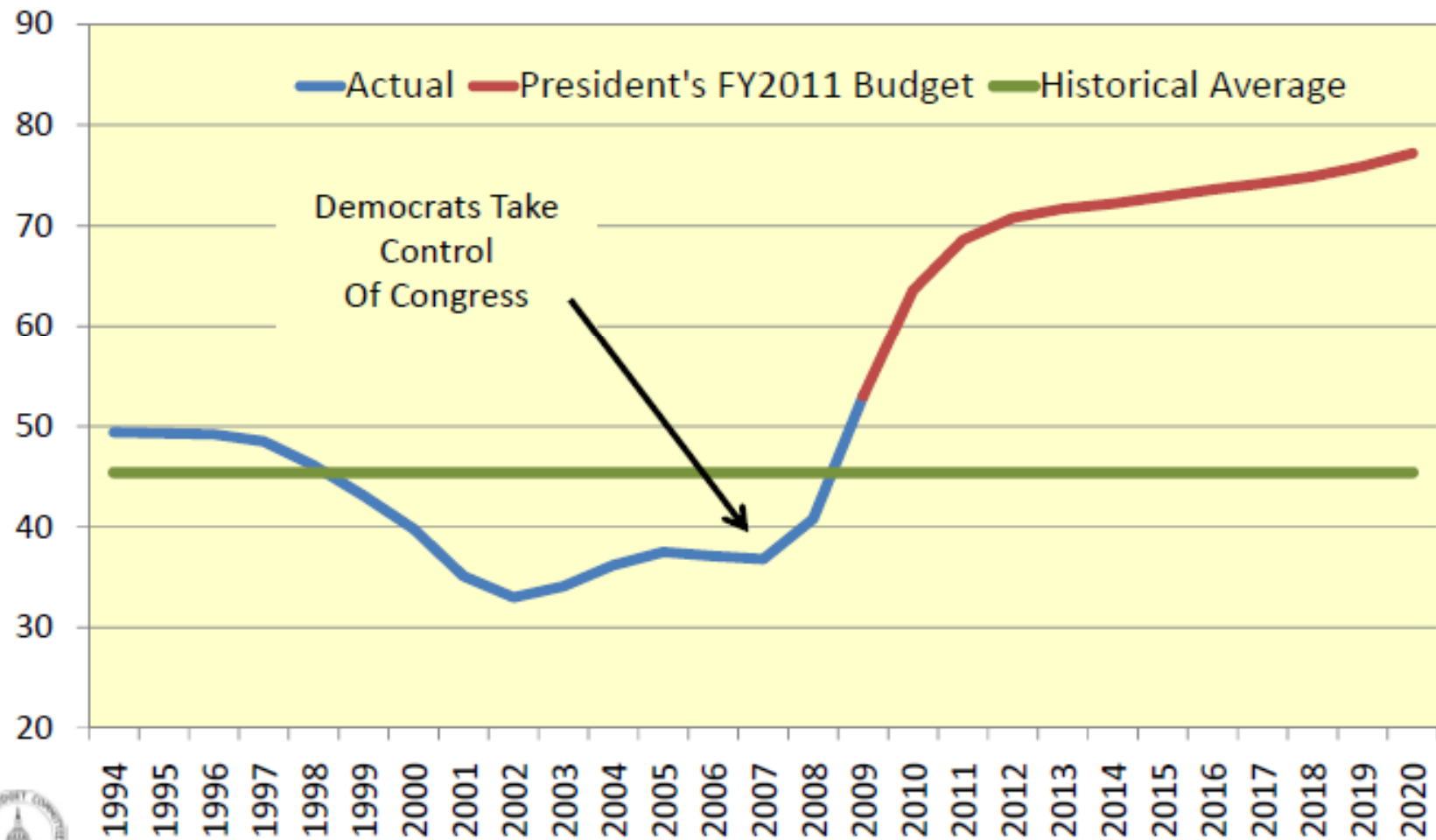
(Debt Held by Public in Billions of Dollars)



Obama FY2011 Budget

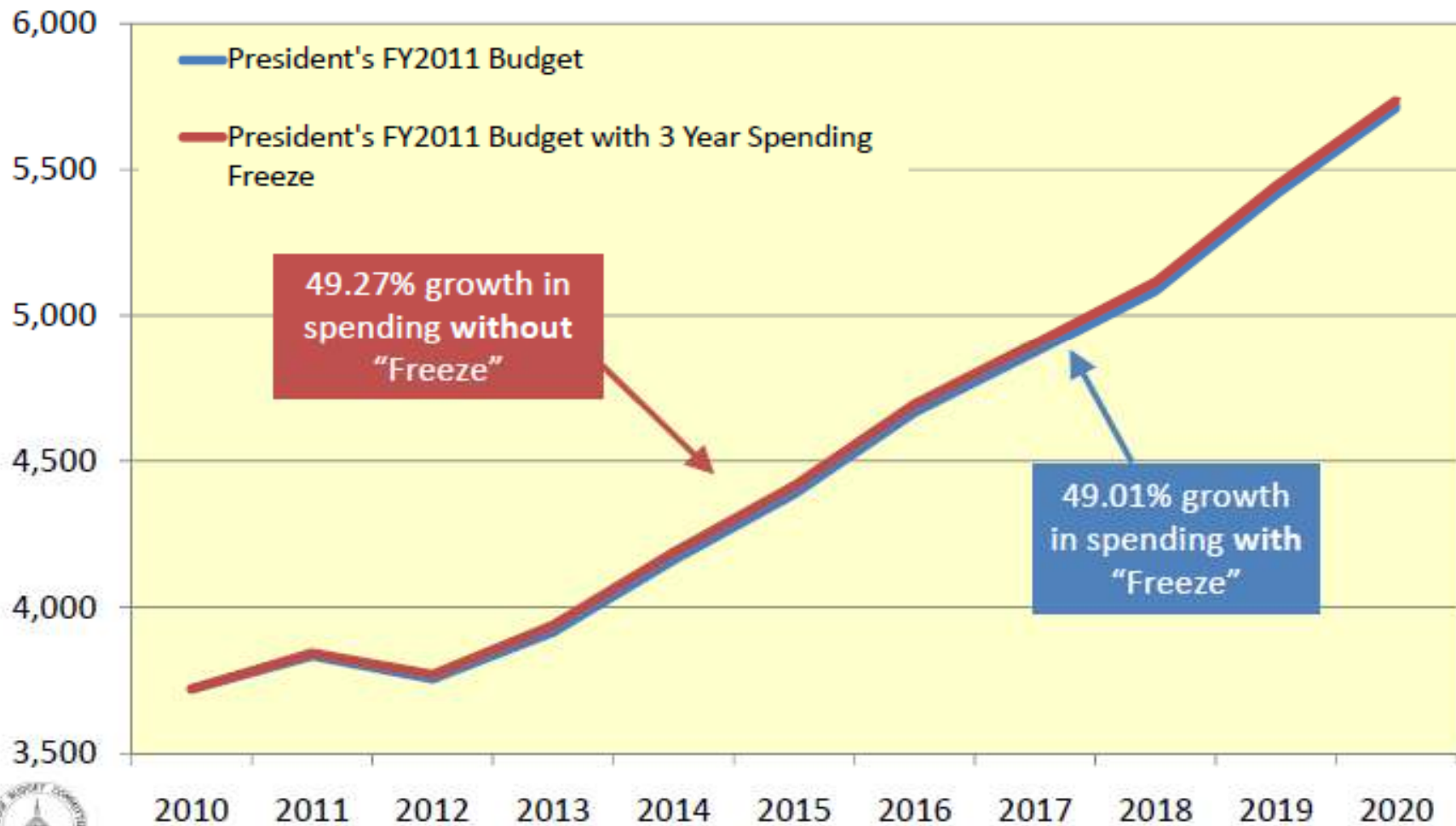
Debt Held by the Public

(As Percentage of GDP)



Impact of the President's "Freeze" on Spending

(In Billions of Dollars)

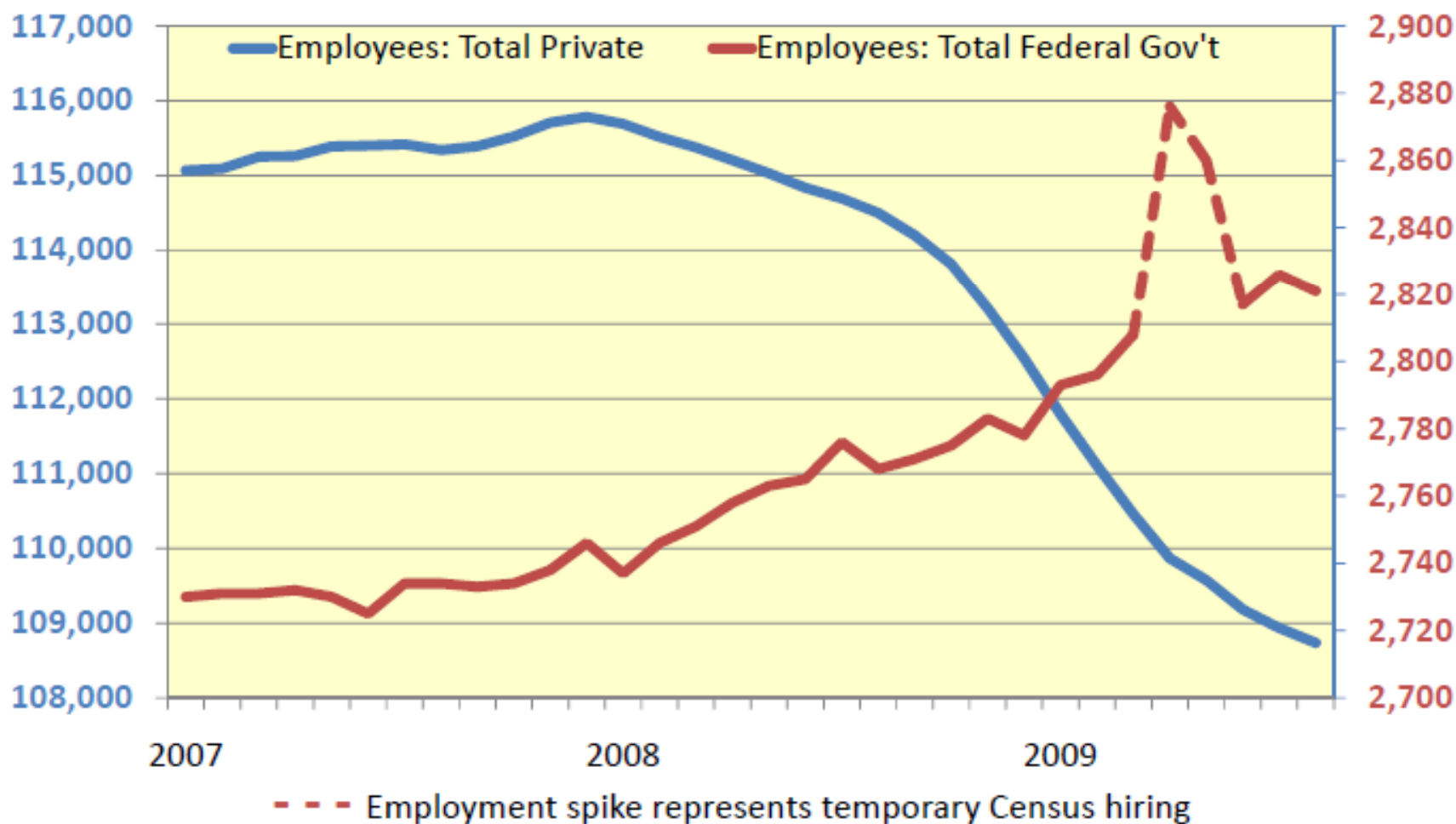


Source: OMB

Figure 2

Private Sector Employment vs. Federal Government Employment

(Jobs in Thousands)

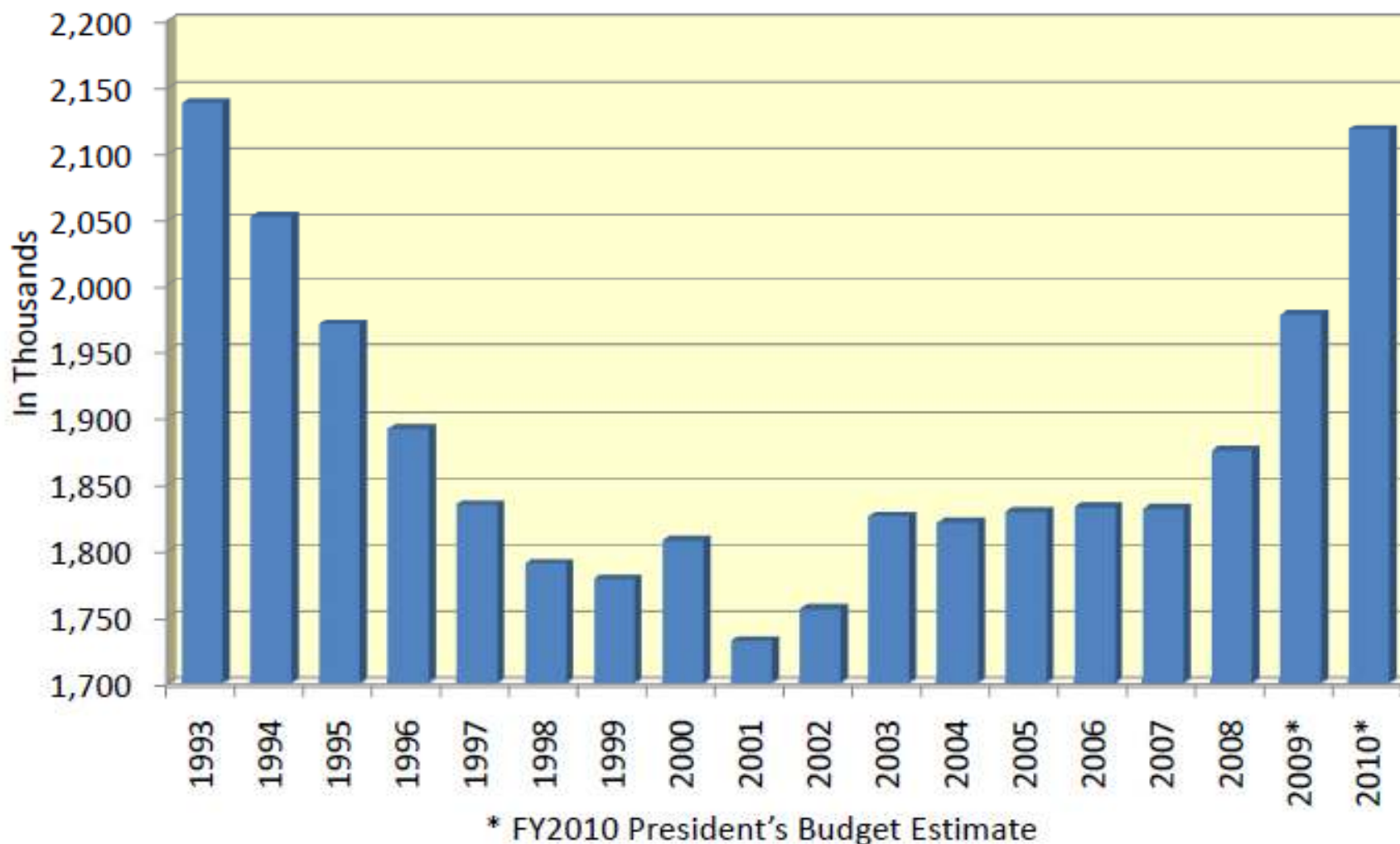


Source: House Budget Committee Minority Staff

Figure 3

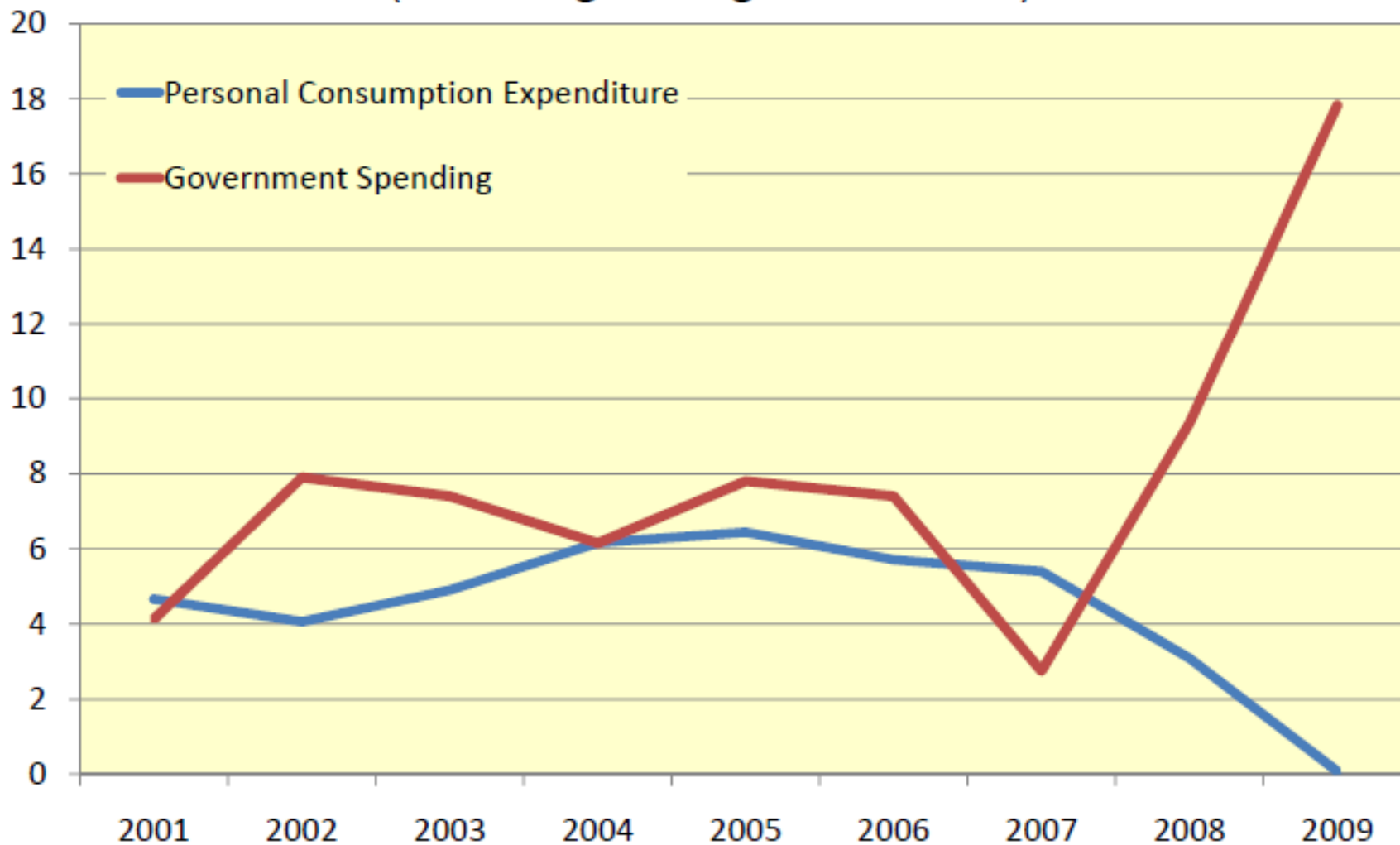
Federal Government Employment

(Executive Branch Civilian FTEs – Excluding Postal Service)



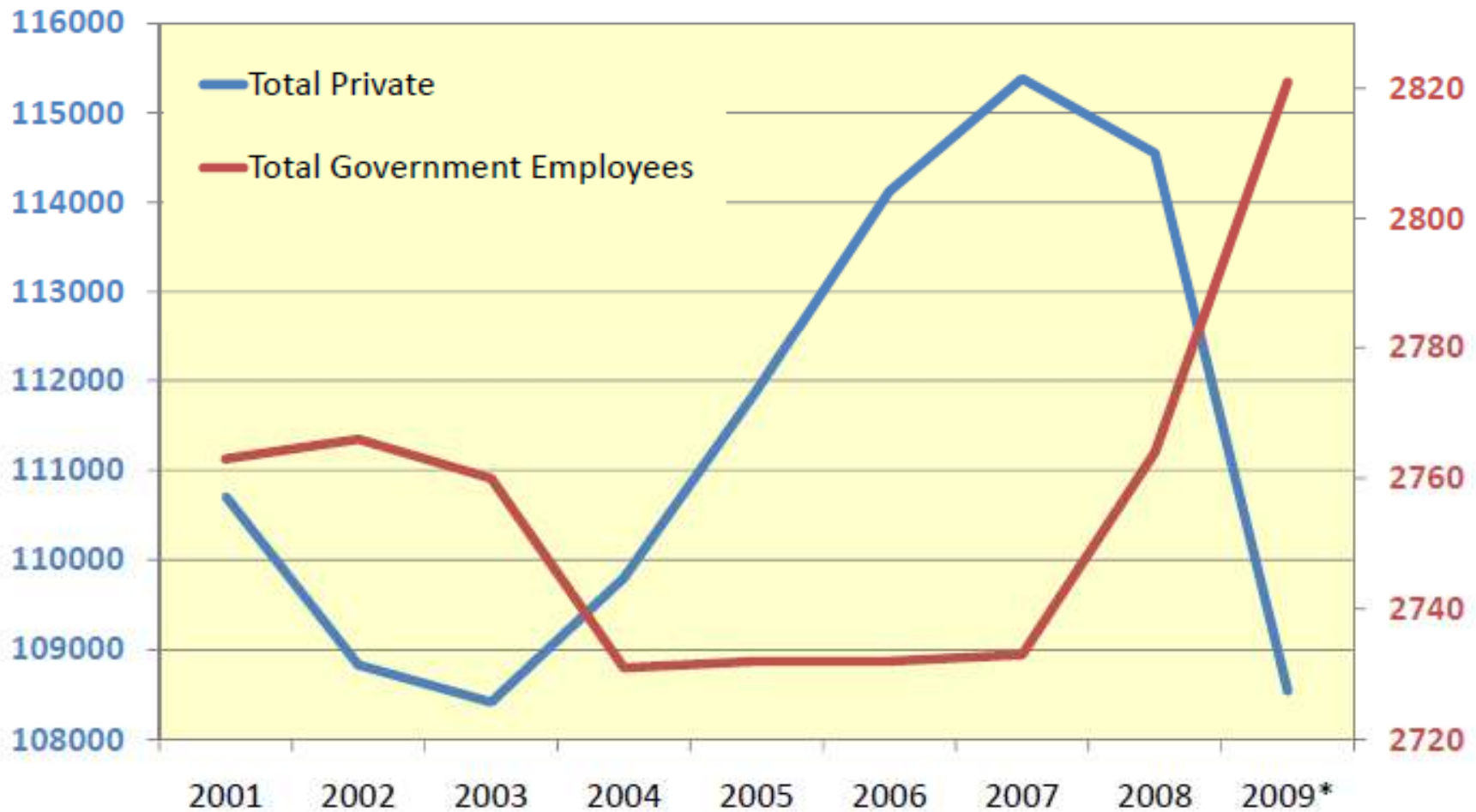
Source: House Budget Committee Minority Staff

Personal Spending VS Government Spending (Percentage Change Year to Year)



Source: House Budget Committee Minority Staff

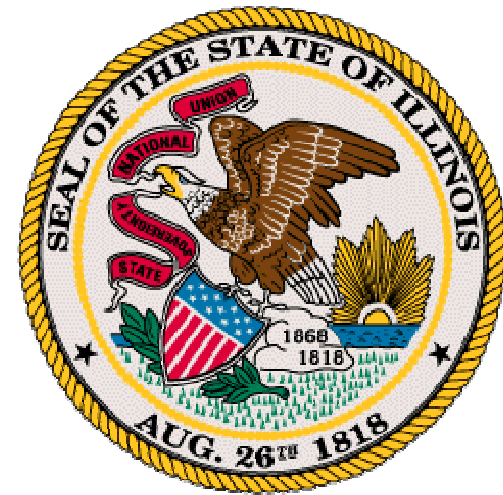
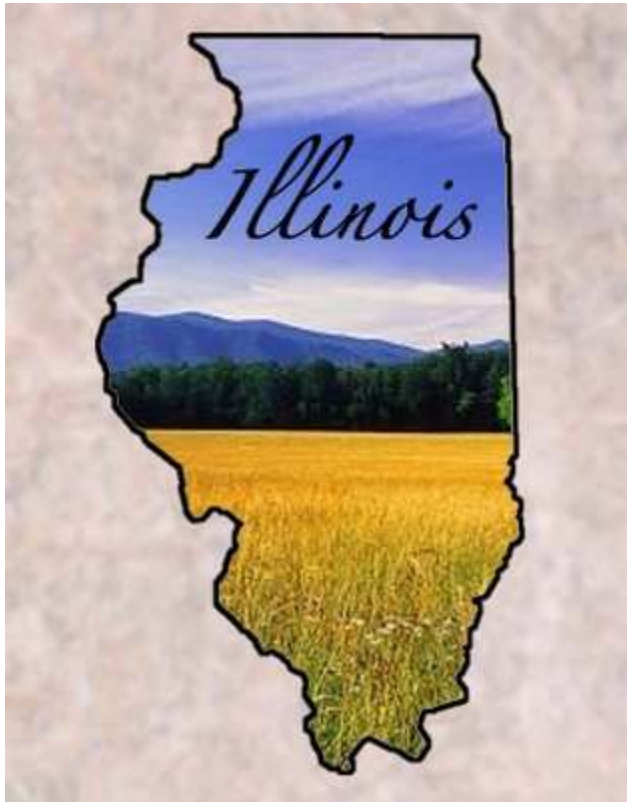
Private Employment VS Federal Gov't Employment (Jobs in Thousands)



Source: Haver . Total Government Employees includes Postal Service

Source: House Budget Committee Minority Staff

Illinois Finances



Credit
Rating
Downgrades
For Illinois:



Moody's		S&P		Fitch		
Long Term	Short Term	Long Term	Short Term	Long Term	Short Term	
Aaa	P-1	AAA	A-1+	AAA	A1+	Prime
Aa1		AA+		AA+		High grade
Aa2		AA		A+		
Aa3		AA-		A-		
A1		A	A-1	A-	A1	Upper medium grade
A2	P-2	A	A-	A2		
A3		A-	BBB+	A2	Lower medium grade	
Baa1		P-3	BBB	A-3		BBB
Baa2	BBB-		BBB-			
Baa3	Not Prime	BB+	B	BB+		B
Ba1		BB		BB		
Ba2		BB-		BB-	Highly Speculative	
Ba3		B+		B+		
B1		B		B		
B2		B-	B-			
B3		CCC+	C	CCC	C	Substantial risks
Caa1		CCC				Extremely speculative
Caa2		CCC-				In default with little prospect for recovery
Caa3		CC				In default with little prospect for recovery
Ca	D	/	DDD	/	In default	
/			DD			
/			D			

Sovereign Risk Monitor

Entity Name	Highest Default Probabilities	
	Mid Spread	CPD (%)
Venezuela	1268.36	56.88
Greece	841.09	49.95
Argentina	907.78	45.61
Pakistan	693.90	37.86
Ukraine	598.93	34.45
Dubai/Emirate of	480.70	28.64
Iraq	434.40	26.66
Illinois/State of	331.82	25.37
California/State of	309.71	24.32
Romania	371.82	23.14

Source: CMA Sovereign Risk Monitor

Forbes Debt Weight Scorecard

Wyoming Tax receipts were up 12% over the last 12 months, the only state to see an increase.

Nebraska The Cornhusker State has its financial house in order with a debt per capita of just \$17.

Michigan Expected to have the highest average unemployment rate at 16.7% in 2010.

California Its Baa1 bond rating from Moody's on its general obligation debt is the lowest for any state.

New York The Empire State saw net migration of 442,000 people over the past five years.

Connecticut Debt per capita of \$4,490 is the highest in the country.

Ohio By one count unfunded pension obligations are \$19,110 per person. Only Rhode Island is worse.

New Mexico State tax collections are down 18% over the past 12 months.

BEST

- 1 Utah
- 2 New Hampshire
- 3 Nebraska
- 4 Texas
- 5 Virginia

Worst

- 46 New Jersey
- 47 California
- 48 Connecticut
- 49 New York
- 50 Illinois

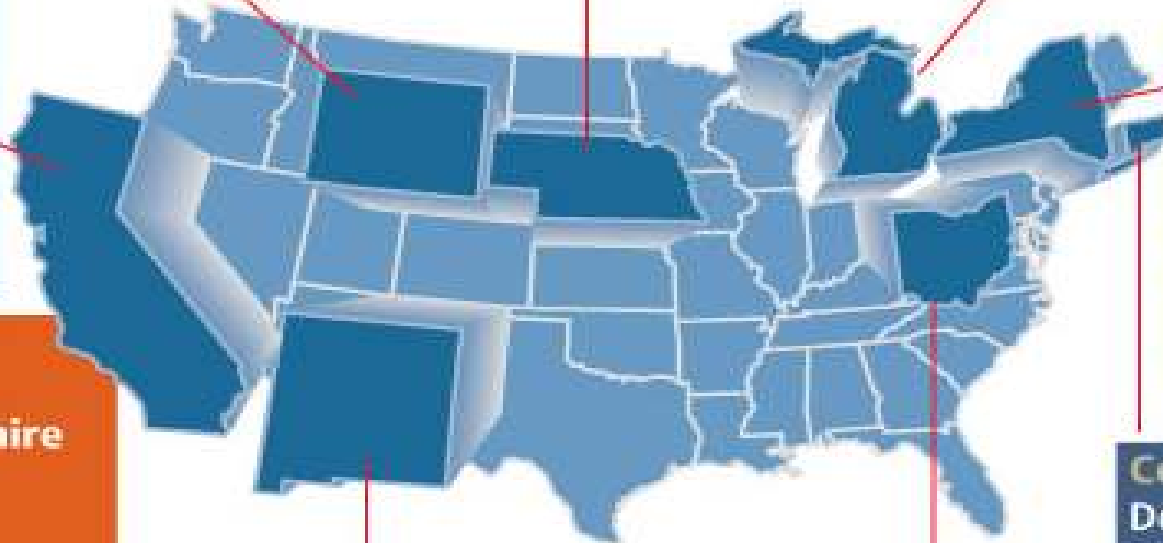


Table 3: Aggregate OPEB Liability Data for 50 States, Based on the Most Recent Governmentwide CAFRs

Dollars in thousands			
State	Liability	Value of assets	Unfunded liability
Alabama ^a	\$2,984,796	\$0	\$2,984,796
Alaska ^a	3,758,699	1,651,729	2,106,970
Arizona ^a	71,180	0	71,180
Arkansas	1,748,182	0	1,748,182
California	62,000,000	0	62,000,000
Colorado ^b	276,332	0	1,326,332
Connecticut ^c	2,318,800	0	2,318,800
Delaware ^d	5,565,100	79,400	5,486,100
Florida	2,404,323	0	2,404,323
Georgia ^a	19,100,171	778,048	18,457,641
Hawaii	8,788,892	0	8,788,892
Idaho	493,746	4,325	489,421
Illinois ^a	24,200,000	0	24,200,000

¹Of the 89 CAFRs reviewed, 7 were fiscal year 2007 CAFRs, and the rest were fiscal year 2008 CAFRs.

²There was one exception. In the few cases where a CAFR reported an entity with a funded ratio of more than 100 percent, we did not include the “overfunded” unfunded liability in the government’s aggregate unfunded liability because to do so could understate the aggregate unfunded liability of the remaining entities. We did not adjust the aggregate liabilities or assets in those cases. In those cases, the unfunded liability is more than the liability minus assets, as noted in each case. Also, for some governments, the aggregate unfunded OPEB liability does not equal the aggregate of the liabilities minus assets, because of the data that were reported in the CAFR.

Source: GAO

Hall of Shame

Here are the states ranked worst to first in percentage of pension liabilities that are funded. Some states that do OK here, such as California and New York, are struggling with other fiscal woes. The bond ratings reflect states' overall strength.

State	Unfunded Liability (bil)	% Funded	RATING		
			S&P	Moody's	Fitch
Illinois	\$54.4	54%	A+	A2	A
Kansas	8.3	59	AA+	Aa1	AA-
Oklahoma	13.2	61	AA+	Aa3	AA
Rhode Island	4.4	61	AA	Aa3	AA-
Connecticut	15.9	62	AA	Aa3	AA
Massachusetts	21.8	63	AA	Aa2	AA
Kentucky	12.3	64	AA-	Aa2	AA-
West Virginia	5.0	64	AA	Aa3	AA-
New Hampshire	2.5	68	AA	Aa2	AA
Hawaii	5.2	69	AA	Aa2	AA
Colorado	16.8	70	AA	Aa2	F1+
Louisiana	11.7	70	AA-	A1	AA-
South Carolina	12.1	70	AA+	Aaa	AAA
Indiana	9.8	72	AAA	Aa1	AA
Mississippi	8.0	73	AA	Aa3	AA
New Jersey	34.4	73	AA	Aa3	AA-
Alaska	3.5	76	AA+	Aa2	AA
Nevada	7.3	76	AA+	Aa2	AA
Alabama	9.2	77	AA	Aa2	AA
Maryland	10.9	78	AAA	Aaa	AAA
Wyoming	1.4	79	AA+	NR	F1+
Arizona	7.9	80	AA-	A1	NR
Maine	2.8	80	AA	Aa3	AA
Oregon	10.7	80	AA	Aa2	AA
Minnesota	10.8	81	AAA	Aa1	AAA

NR=Not rated

State	Unfunded Liability (bil)	% Funded	RATING		
			S&P	Moody's	Fitch
Missouri	\$9.0	83%	AAA	Aaa	AAA
New Mexico	4.5	83	AA+	Aa1	NR
Michigan	11.5	84	AA-	Aa3	A+
Montana	1.5	84	AA	Aa2	AA
Utah	3.6	84	AAA	Aaa	AAA
Virginia	10.7	84	AAA	Aaa	AAA
Arkansas	2.8	87	AA	Aa2	NR
California	59.5	87	A-	Baa1	BBB
North Dakota	0.5	87	AA+	Aa2	NR
Ohio	19.5	87	AA+	Aa2	AA
Pennsylvania	13.7	87	AA	Aa2	AA
Vermont	0.5	88	AA+	Aaa	AA+
Iowa	2.7	89	AAA	Aa1	AA+
Texas	13.8	91	AA+	Aa1	AA+
Georgia	6.4	92	AAA	Aaa	AAA
Nebraska	0.8	92	AA+	NR	NR
Idaho	0.8	93	AA	Aa2	AA-
Tennessee	1.6	95	AA+	Aa2	AA+
South Dakota	0.2	97	AA	NR	AA-
Delaware	0.1	98	AAA	Aaa	AAA
North Carolina	0.5	99	AAA	Aaa	AAA
Washington	(0.2)	100	AA+	Aa1	AA
Wisconsin	0.3	100	AA	Aa3	AA-
Florida	(1.8)	101	AAA	Aa1	AA+
New York	(10.4)	107	AA	Aa3	AA-

Sources: Pew Center on the States; Standard & Poor's; Moody's; Fitch

Source:
Barron's

A sorry state of fiscal affairs

The state budget crisis is not a new development but rather the result of years of accumulated budget shortfalls made worse by the recession. Now state lawmakers must decide how to alleviate a nearly

\$13 billion problem. Any significant budget cuts would have to come from the general funds, the portion of the budget over which lawmakers have the most discretion.

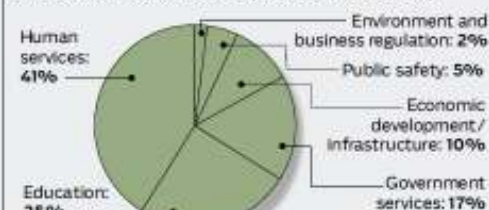
State budget revenues come from many sources ...

FISCAL YEAR 2010 REVENUES (TOTAL: \$54.3 billion)
For July 1, 2009-June 30, 2010



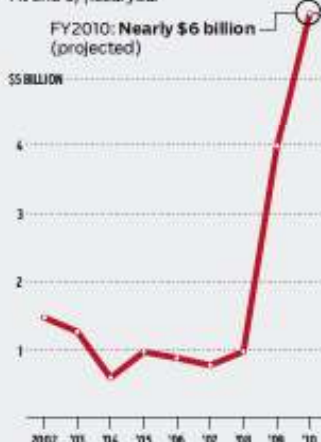
... and fund a variety of services.

FY 2010 APPROPRIATIONS (TOTAL: \$54.3 billion)



Unpaid bills have accumulated and are expected to grow ...

TOTAL ACCOUNTS PAYABLE
At end of fiscal year



Projected imbalance between expenditures and revenues at the end of the current fiscal year in June

new contributions owed to state pension systems

Repay installments on money borrowed to meet pension payments in prior years

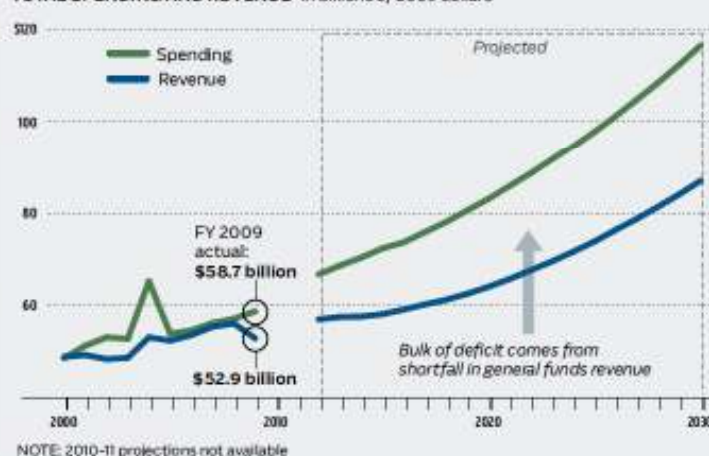
One-time federal stimulus aid that disappears in the new fiscal year

Miscellaneous revenue losses

PROJECTED FY 2011 DEFICIT = \$13 billion

... with no end in sight.

TOTAL SPENDING AND REVENUE In billions of 2009 dollars

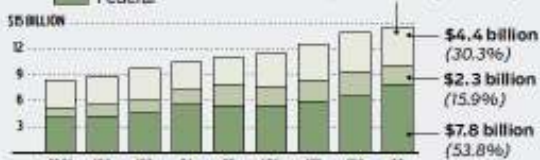


Rising costs add to the strain ...

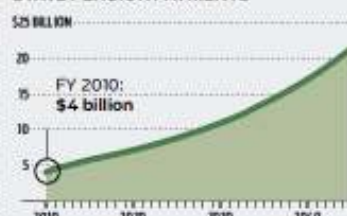
TOTAL MEDICAID SPENDING

KEY

- State general funds
- Other state and local
- Federal



REQUIRED YEARLY STATE PENSION PAYMENTS



... making Illinois among the worst states.

BIGGEST BUDGET SHORTFALLS

STATE	PROJECTED FY 2011 SHORTFALL (BILLIONS)	FY 2011 SHORTFALL PER CAPITA
California	\$14.4	\$390
Illinois	12.8	991
New Jersey	8.0	918
New York	7.4	379
Connecticut	4.7	1,336
Florida	4.7	254
North Carolina	4.4	469

NOTE: Percentages may not total 100 due to rounding.

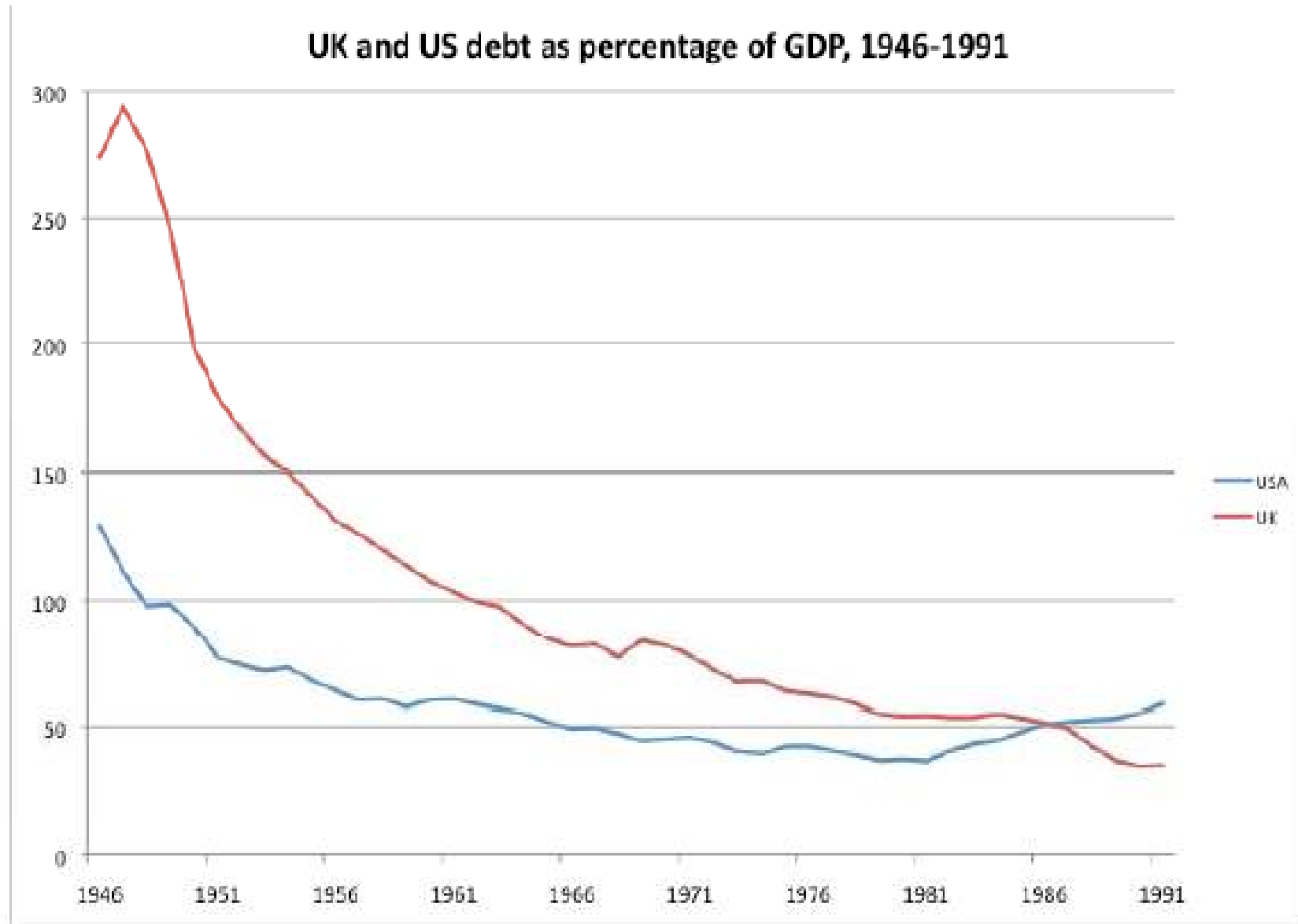
SOURCES: Commission on Government Forecasting & Accountability; Center for Tax and Budget Accountability; The Civic Federation; Tribune reporting; University of Illinois Institute of Government and Public Affairs Fiscal Futures Model; National Association of State Budget Officers; U.S. Census Bureau

ADAM ZOLL AND PHIL GEIB/TRIBUNE

In the modern age, there are only four ways that an economy can grow:

- First, a country can produce more by having its citizen work more hours.
- Second, it can give more of its workers tools.
- Third, a country can invent brand new ways of doing things.
- Fourth, a nation can grow by trading with another nation and both will benefit.

Debt Reductions of the Past



Source: Musson

Lessons of post-war history

	US	UK
Total reduction (% GDP)	90	212
Growth	56	98
Inflation	53	228
Budget surpluses	-21	-124

Source: Buiter

Solutions

- Stop spending money we don't have.
- Pass the Balanced Budget Amendment to the Constitution;
- Enact the Line Item Veto;
- Reform our broken, wasteful and corrupt earmark system;

Solutions II

- Eliminate whole programs like the Federal Sugar Program.
- Pass the Small Business Bill of Rights.
- Prioritize heavy infrastructure – our aviation, rail, roads and river systems.
- End the corruption tax.

Solutions III

- Build an education system for global economy.
- Open new markets to help American exporters.



Questions?

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